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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

KRISTEN K. MAYES, Chairman
GARY PIERCE
PAUL NEWMAN
SANDRA D. KENNEDY
BOB STUMP

Arizona Corporation Commission

DOCKETED

JAN 26 2010

DOCKETED BY

IN THE MATTER OF THE APPLICATION OF)
GRAHAM COUNTY UTILITIES, INC. FOR A)
RATE INCREASE)

DOCKET NO. G-02527A-09-0088

IN THE MATTER OF THE APPLICATION OF)
GRAHAM COUNTY UTILITIES, INC. GAS)
DIVISION FOR APPROVAL OF A LOAN)

DOCKET NO. G-02527A-09-0032

IN THE MATTER OF THE APPLICATION OF)
GRAHAM COUNTY UTILITIES, INC. WATER)
DIVISION FOR A RATE INCREASE)

DOCKET NO. W-02527A-09-0201

IN THE MATTER OF THE APPLICATION OF)
GRAHAM COUNTY UTILITIES, INC. WATER)
DIVISION FOR APPROVAL OF A LOAN)

DOCKET NO. W-02527A-09-0033

IN THE MATTER OF THE APPLICATION OF)
GRAHAM COUNTY ELECTRIC)
COOPERATIVE, INC. FOR APPROVAL OF A)
LOAN GUARANTEE)

DOCKET NO. E-01749A-09-0087

Graham County Utilities, Inc. ("GCU") hereby files the Rejoinder Testimony of John V.
Wallace in the above-referenced matter.

RESPECTFULLY SUBMITTED this 26th day of January, 2010.

By

John V. Wallace
Grand Canyon State Electric Cooperative Assn., Inc.
Consultant for Graham County Utilities, Inc.

1 **Original** and nineteen (19) copies filed
2 this 26th day of January, 2010, with:

3 Docket Control
4 Arizona Corporation Commission
5 1200 W. Washington
6 Phoenix, AZ 85007
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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

KRISTEN K. MAYES, CHAIRMAN
GARY PIERCE
BOB STUMP
PAUL NEWMAN
SARAH KENNEDY

IN THE MATTER OF THE APPLICATION OF) GRAHAM COUNTY UTILITIES, INC. FOR A) RATE INCREASE) _____)	DOCKET NO. G-02527A-09-0088
IN THE MATTER OF THE APPLICATION OF) GRAHAM COUNTY UTILITIES, INC. GAS) DIVISION FOR APPROVAL OF A LOAN) _____)	DOCKET NO. G-02527A-09-0032
IN THE MATTER OF THE APPLICATION OF) GRAHAM COUNTY UTILITIES, INC. WATER) DIVISION FOR A RATE INCREASE) _____)	DOCKET NO. W-02527A-09-0201
IN THE MATTER OF THE APPLICATION OF) GRAHAM COUNTY UTILITIES, INC. WATER) DIVISION FOR APPROVAL OF A LOAN) _____)	DOCKET NO. W-02527A-09-0033
IN THE MATTER OF THE APPLICATION OF) GRAHAM COUNTY ELECTRIC) COOPERATIVE, INC. FOR APPROVAL OF A) LOAN GUARANTEE) _____)	DOCKET NO. E-01749A-09-0087

REJOINDER

TESTIMONY

OF

JOHN V. WALLACE

GRAHAM COUNTY UTILITIES, INC.

JANUARY 26, 2010

TABLE OF CONTENTS

	<u>Page</u>
Summary	
I. Introduction and Summary of Recommendations.....	1
II. GCU's Comments on Staff's Surrebuttal Testimony.....	3

I. INTRODUCTION AND SUMMARY OF TESTIMONY

Q. Please state your name address and occupation.

A. My name is John V. Wallace. I am the Director of Regulatory and Strategic Services of Grand Canyon State Electric Cooperative Association ("GCSECA"). I am filing rejoinder testimony on behalf of Graham County Utilities, Inc. ("GCU" or "Cooperative").

Q. Have you filed direct and rebuttal testimony in these dockets?

A. Yes. I have.

Q. On whose behalf are you appearing in this proceeding?

A. I am appearing on behalf of the applicants, GCU Gas and Water Divisions.

Q. Was this testimony prepared by you or under your direction?

A. Yes, it was.

Q. What areas does your testimony address?

A. My testimony addresses the surrebuttal testimony of the Arizona Corporation Commission Staff ("Staff") witnesses. In an effort to expedite the Commission's processing of these cases, GCU has limited the number of issues it will address in this testimony. Silence on any Staff issues raised and recommendations provided does not indicate agreement.

Q. Please summarize your recommendations.

A. In an effort to expedite the processing of these cases, GCU did not take a position on each issue raised by Staff witnesses in their direct and surrebuttal testimony. GCU is stipulating to all the recommendations contained in Staff Witnesses Allen's, Stukov's, Miller's, Wallace's, Manrique's, Gray's and Bahl's direct testimony.

1
2 GCU stipulates to all of the recommendations found in Ms. McNeely-Kirwan's direct and
3 surrebuttal testimony except the recommendation found in her surrebuttal testimony that
4 states that GCU should file proposed DSM programs in this docket 60 days after the
5 effective date of a decision in this matter. GCU is requesting that it be allowed to file its
6 DSM/Energy Efficiency programs 120 days after the effective date of the decision in this
7 matter. This will give GCU the time and the resources necessary to comply with this
8 recommendation.

9
10 GCU stipulates to all of the recommendations found in Ms. Allen's direct and surrebuttal
11 testimony. GCU reiterates the need for its recommended TIER and DSC ratios and
12 corresponding revenue requirement as a result of stipulating to Ms. Allen's
13 recommendation that states that GCU should refund the over-charged line extension costs
14 over a three year period from the effective date of the decision in this matter.

15
16 GCU stipulates to all of the recommendations found in Mr. McMurray's testimony
17 except the recommendation found on Schedule GTM-2 of his direct testimony that states
18 that GCU should receive a Times Interest Earned Ratio ("TIER") and Debt Service
19 Coverage Ratio ("DSC") of 2.38 and 1.94 respectively. For the reasons stated in my
20 direct, rebuttal and rejoinder testimony, GCU's requested TIER of 3.01 and DSC of 2.27
21 should be granted resulting in a revenue requirement of \$4,282,784 versus the Staff
22 recommended revenue requirement of \$4,222,160.

23
24 Finally, GCU stipulates to all of the recommendations found in Mr. Chaves' direct
25 testimony except GCU has proposed an alternate inclining block tiered rate structure.
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1 **II. GCU'S COMMENTS ON STAFF DIRECT TESTIMONY**

2
3 Q. Does GCU have any comments on Staff Witness McNeely-Kirwan's surrebuttal
4 testimony?

5 A. Yes. GCU stipulates to all of the recommendations found in Ms. McNeely-Kirwan's
6 direct and surrebuttal testimony except that GCU would request that it be allowed to file
7 proposed DSM programs in this docket 120 days after the effective date of the decision in
8 this case. As discussed previously in my rebuttal testimony GCU has no in-house
9 expertise on the development and implementation of DSM and Energy Efficiency ("EE")
10 programs. Consequently, GCU will need to hire an outside consultant to determine the
11 type, costs and benefits associated with gas EE programs. The 120 day time frame will
12 give GCU the time and the resources necessary to comply with this recommendation.

13
14
15 Q. Does GCU have any comments on Staff Witness Allen's direct testimony?

16 A. Yes. GCU stipulates to all of the recommendations found in Ms. Allen's direct and
17 rebuttal testimony. GCU requests that its higher TIER and DSC ratios and
18 corresponding revenue requirement be granted so it can afford to refund the over-charged
19 line extension costs over a three year period from the effective date of the decision in this
20 matter.

21
22 Q. Does GCU have any comments on Staff Witness McMurray's direct testimony?

23 A. Yes. GCU stipulates to all of the recommendations found in Mr. McMurray's testimony
24 except the recommendation found on Schedule GTM-2 of his direct testimony that states
25 that GCU should receive a Times Interest Earned Ratio ("TIER") and Debt Service
26 Coverage Ratio ("DSC") of 2.38 and 1.94 respectively. These ratios are considerably
27 lower than what GCU requested to be able to fund operations and plant improvements.
28 These lower ratios are compounded by the fact that GCU's financial condition continues

1 to deteriorate and the fact that GCU has stipulated to the Staff recommendations that it
2 must refund approximately \$226,000 of over-charged line extension costs over a three
3 year period from the effective date of the decision in this matter. Finally, in accordance
4 with previous Commission Decision No. 69245, GCU must make progress towards
5 meeting a 30 percent equity requirement. GCU's positive equity balance amount has
6 declined from \$519,672 in 2007 to \$386,270 in 2008 to a negative equity amount of
7 \$129,870. Staff does not dispute the fact that GCU's proposed revenue requirement for
8 the Gas Division will result in a higher equity ratio than the Staff recommended revenue
9 requirement for the Gas Division. For the reasons stated in my direct, rebuttal and
10 rejoinder testimony, GCU's requested TIER of 3.01 and DSC of 2.27 should be granted
11 resulting in a revenue requirement of \$4,282,784 versus the Staff recommended revenue
12 requirement of \$4,222,160 found in Staff Witness McMurray's testimony.

13
14 Q. Does GCU have any comments on Staff Witness Chaves' direct testimony?

15 A. Yes. GCU stipulates to all of the recommendations found in Mr. Chaves' direct
16 testimony except GCU has proposed an alternate inclining block tiered rate structure.
17 GCU is concerned that Staff's tiered rate structure will result in rate shock for customers
18 who use over 9,000 gallons because the rate per 1,000 gallons increases by 113 percent
19 from \$2.55 to \$5.43. In addition, a large portion of GCU's revenues are collected from
20 customers who use over 9,000 gallons. According to Staff's Typical Bill Analysis
21 ("TBA"), Staff's tiered rate design results in average customers in the 1" and 1 1/2"
22 classes receiving rate increases in excess of 56% and in the 2" and 4" classes receiving
23 increases in excess of 78%. (Please refer to the attached Staff TBAs).

24
25 Mr. Chaves states in his surrebuttal testimony that my assertion in my rebuttal testimony
26 that there will be a significant amount of customer conservation and lost revenue for
27 GCU "is unsupported speculation and not quantifiable". If Staff now believes there will
28 not be significant amount of conservation that will result from its recommended tiered

1 rate design, then GCU would request that its customers not be subjected to the extreme
2 increases that result from Staff's recommended tiered rates.

3
4 Finally, GCU currently has water resources well in excess of its demand for the next 5
5 years as confirmed by Staff Witness Stukov in Exhibit KS. GCU's proposed tiered rate
6 structure will provide customers with an incentive to conserve and will provide a more
7 gradual transition between a flat rate and tiered rate structure. For these reasons, GCU
8 recommends its proposed tiered rate structure be adopted.

9
10 Q. Does GCU have any comments on Staff Witness Stukov's direct testimony including the
11 recently filed exhibit on Staff's recommended hook-up fees?

12 A. Yes. In an effort to limit the issues in these rate cases, GCU will not be taking a position
13 on each issue raised in Staff Witness Stukov's direct testimony despite the fact that it
14 could provide compelling arguments on some of the issues raised by Ms. Stukov. GCU
15 stipulates to all of the recommendations found in Ms. Stukov's direct testimony including
16 her recommendations on hook-up fees.

17
18 Q. Does that conclude your rejoinder testimony?

19 A. Yes, it does.
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Typical Bill Analysis
5/8" x 3/4"

Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	9,000	\$ 39.75	\$ 47.70	\$ 7.95	20.00%
Median Usage	5,000	29.55	34.90	\$ 5.35	18.10%
Staff Recommended					
Average Usage	9,000	\$ 39.75	\$ 49.25	\$ 9.50	23.90%
Median Usage	5,000	29.55	33.25	\$ 3.70	12.52%

Present & Proposed Rates (Without Taxes)
5/8" x 3/4"

Gallons Consumption	Present Rates	Company Proposed Rates	% Increase	Staff Recommended Rates	% Increase
-	\$ 16.80	\$ 19.50	16.07%	\$ 17.00	1.19%
1,000	19.35	22.50	16.28%	19.75	2.07%
2,000	21.90	25.50	16.44%	22.50	2.74%
3,000	24.45	28.50	16.56%	25.25	3.27%
4,000	27.00	31.70	17.41%	29.25	8.33%
5,000	29.55	34.90	18.10%	33.25	12.52%
6,000	32.10	38.10	18.69%	37.25	16.04%
7,000	34.65	41.30	19.19%	41.25	19.05%
8,000	37.20	44.50	19.62%	45.25	21.64%
9,000	39.75	47.70	20.00%	49.25	23.90%
10,000	42.30	51.21	21.06%	54.68	29.27%
11,000	44.85	54.72	22.01%	60.11	34.02%
12,000	47.40	58.23	22.85%	65.54	38.27%
13,000	49.95	61.74	23.60%	70.97	42.08%
14,000	52.50	65.25	24.29%	76.40	45.52%
15,000	55.05	68.76	24.90%	81.83	48.65%
16,000	57.60	72.27	25.47%	87.26	51.49%
17,000	60.15	75.78	25.99%	92.69	54.10%
18,000	62.70	79.29	26.46%	98.12	56.49%
19,000	65.25	82.80	26.90%	103.55	58.70%
20,000	67.80	86.31	27.30%	108.98	60.74%
25,000	80.55	103.86	28.94%	136.13	69.00%
30,000	93.30	121.41	30.13%	163.28	75.01%
35,000	106.05	138.96	31.03%	190.43	79.57%
40,000	118.80	156.51	31.74%	217.58	83.15%
45,000	131.55	174.06	32.31%	244.73	86.04%
50,000	144.30	191.61	32.79%	271.88	88.41%
75,000	208.05	279.36	34.28%	407.63	95.93%
100,000	271.80	367.11	35.07%	543.38	99.92%

Typical Bill Analysis

1"

Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	18,000	\$ 68.90	\$ 85.00	\$ 16.10	23.37%
Median Usage	15,000	61.25	76.00	\$ 14.75	24.08%
Staff Recommended					
Average Usage	18,000	\$ 68.90	\$ 108.00	\$ 39.10	56.75%
Median Usage	15,000	61.25	96.00	\$ 34.75	56.73%

Present & Proposed Rates (Without Taxes)

1"

Gallons Consumption	Present Rates	Company Proposed Rates	% Increase	Staff Recommended Rates	% Increase
-	\$ 23.00	\$ 31.00	34.78%	\$ 38.00	56.52%
1,000	25.55	34.00	33.07%	40.00	56.56%
2,000	28.10	37.00	31.67%	44.00	56.58%
3,000	30.65	40.00	30.51%	48.00	56.61%
4,000	33.20	43.00	29.52%	52.00	56.63%
5,000	35.75	46.00	28.67%	56.00	56.64%
6,000	38.30	49.00	27.94%	60.00	56.66%
7,000	40.85	52.00	27.29%	64.00	56.67%
8,000	43.40	55.00	26.73%	68.00	56.68%
9,000	45.95	58.00	26.22%	72.00	56.69%
10,000	48.50	61.00	25.77%	76.00	56.70%
11,000	51.05	64.00	25.37%	80.00	56.71%
12,000	53.60	67.00	25.00%	84.00	56.72%
13,000	56.15	70.00	24.67%	88.00	56.72%
14,000	58.70	73.00	24.36%	92.00	56.73%
15,000	61.25	76.00	24.08%	96.00	56.73%
16,000	63.80	79.00	23.82%	100.00	56.74%
17,000	66.35	82.00	23.59%	104.00	56.74%
18,000	68.90	85.00	23.37%	108.00	56.75%
18,259	69.56	85.78	23.31%	109.04	56.75%
19,000	71.45	88.00	23.16%	112.00	56.75%
20,000	74.00	91.20	23.24%	117.43	58.69%
25,000	86.75	107.20	23.57%	144.58	66.66%
30,000	99.50	123.20	23.82%	171.73	72.59%
35,000	112.25	139.20	24.01%	198.88	77.18%
40,000	125.00	155.20	24.16%	226.03	80.82%
45,000	137.75	171.20	24.28%	253.18	83.80%
50,000	150.50	187.20	24.39%	280.33	86.27%
75,000	214.25	267.20	24.71%	416.08	94.20%
100,000	278.00	347.20	24.89%	551.83	98.50%

Typical Bill Analysis
1 1/2"

Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	26,000	\$ 96.30	\$ 115.90	\$ 19.60	20.35%
Median Usage	15,000	68.25	81.50	\$ 13.25	19.41%
Staff Recommended					
Average Usage	26,000	\$ 96.30	\$ 152.01	\$ 55.71	57.85%
Median Usage	15,000	68.25	98.00	\$ 29.75	43.59%

Present & Proposed Rates (Without Taxes)
1 1/2"

Gallons Consumption	Present Rates	Company Proposed Rates	% Increase	Staff Recommended Rates	% Increase
-	\$ 30.00	\$ 36.50	21.67%	\$ 38.00	26.67%
1,000	32.55	39.50	21.35%	42.00	29.03%
2,000	35.10	42.50	21.08%	46.00	31.05%
3,000	37.65	45.50	20.85%	50.00	32.80%
4,000	40.20	48.50	20.65%	54.00	34.33%
5,000	42.75	51.50	20.47%	58.00	35.67%
6,000	45.30	54.50	20.31%	62.00	36.87%
7,000	47.85	57.50	20.17%	66.00	37.93%
8,000	50.40	60.50	20.04%	70.00	38.89%
9,000	52.95	63.50	19.92%	74.00	39.75%
10,000	55.50	66.50	19.82%	78.00	40.54%
11,000	58.05	69.50	19.72%	82.00	41.26%
12,000	60.60	72.50	19.64%	86.00	41.91%
13,000	63.15	75.50	19.58%	90.00	42.52%
14,000	65.70	78.50	19.48%	94.00	43.07%
15,000	68.25	81.50	19.41%	98.00	43.59%
16,000	70.80	84.50	19.35%	102.00	44.07%
17,000	73.35	87.50	19.29%	106.00	44.51%
18,000	75.90	90.50	19.24%	110.00	44.93%
26,000	96.30	115.90	20.35%	152.01	57.85%
19,000	78.45	93.50	19.18%	114.00	45.32%
20,000	81.00	96.70	19.38%	119.43	47.44%
25,000	93.75	112.70	20.21%	146.58	56.35%
30,000	106.50	128.70	20.85%	173.73	63.13%
35,000	119.25	144.70	21.34%	200.88	68.45%
40,000	132.00	160.70	21.74%	228.03	72.75%
45,000	144.75	176.70	22.07%	255.18	76.29%
50,000	157.50	192.70	22.35%	282.33	79.26%
75,000	221.25	272.70	23.25%	418.08	88.96%
100,000	285.00	352.70	23.75%	553.83	94.33%

Typical Bill Analysis
2"

Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	16,000	\$ 57.60	\$ 87.00	\$ 29.40	51.04%
Median Usage	13,000	49.95	78.00	\$ 28.05	56.16%

Staff Recommended

Average Usage	16,000	\$ 62.70	\$ 114.00	\$ 51.30	81.82%
Median Usage	13,000	55.05	102.00	\$ 46.95	85.29%

Present & Proposed Rates (Without Taxes)
2"

Gallons Consumption	Present Rates	Company Proposed Rates	% Increase	Staff Recommended Rates	% Increase
-	\$ 16.80	\$ 39.00	132.14%	\$ 42.00	150.00%
1,000	19.35	42.00	117.05%	46.00	137.73%
2,000	21.90	45.00	105.48%	50.00	128.31%
3,000	24.45	48.00	96.32%	54.00	120.86%
4,000	27.00	51.00	88.89%	58.00	114.81%
5,000	29.55	54.00	82.74%	62.00	109.81%
6,000	32.10	57.00	77.57%	66.00	105.61%
7,000	34.65	60.00	73.16%	70.00	102.02%
8,000	37.20	63.00	69.35%	74.00	98.92%
9,000	39.75	66.00	66.04%	78.00	96.23%
10,000	42.30	69.00	63.12%	82.00	93.85%
11,000	44.85	72.00	60.54%	86.00	91.75%
12,000	47.40	75.00	58.23%	90.00	89.87%
13,000	49.95	78.00	56.16%	94.00	88.19%
14,000	52.50	81.00	54.29%	98.00	86.67%
15,000	55.05	84.00	52.59%	102.00	85.29%
16,000	57.60	87.00	51.04%	106.00	84.03%
17,000	60.15	90.00	49.63%	110.00	82.88%
18,000	62.70	93.00	48.33%	114.00	81.82%
26,000	83.10	118.20	42.24%	154.58	86.02%
19,000	65.25	96.00	47.13%	118.00	80.84%
20,000	67.80	99.00	46.02%	122.00	79.94%
25,000	80.55	115.00	42.77%	149.15	85.16%
30,000	93.30	131.00	40.41%	176.30	88.96%
35,000	106.05	147.00	38.61%	203.45	91.84%
40,000	118.80	163.00	37.21%	230.60	94.11%
45,000	131.55	179.00	36.07%	257.75	95.93%
50,000	144.30	195.00	35.14%	284.90	97.44%
75,000	208.05	275.00	32.18%	420.65	102.19%
100,000	271.80	355.00	30.61%	556.40	104.71%

**Typical Bill Analysis
Resale (4")**

Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	903,000	\$ 1,393.53	\$ 1,791.76	\$ 398.23	28.58%
Median Usage	903,000	1,393.53	1,791.76	\$ 398.23	28.58%
Staff Recommended					
Average Usage	903,000	\$ 1,393.53	\$ 2,488.10	\$ 1,094.57	78.55%
Median Usage	903,000	1,393.53	2,488.10	\$ 1,094.57	78.55%

**Present & Proposed Rates (Without Taxes)
Resale (4")**

Gallons Consumption	Present Rates	Company Proposed Rates	% Increase	Staff Recommended Rates	% Increase
-	\$ 30.00	\$ 58.00	93.33%	\$ 50.00	66.67%
1,000	31.51	59.92	90.16%	52.70	67.25%
2,000	33.02	61.84	87.28%	55.40	67.78%
3,000	34.53	63.76	84.65%	58.10	68.26%
4,000	36.04	65.68	82.24%	60.80	68.70%
5,000	37.55	67.60	80.03%	63.50	69.11%
6,000	39.06	69.52	77.98%	66.20	69.48%
7,000	40.57	71.44	76.09%	68.90	69.83%
8,000	42.08	73.36	74.33%	71.60	70.15%
9,000	43.59	75.28	72.70%	74.30	70.45%
10,000	45.10	77.20	71.18%	77.00	70.73%
11,000	46.61	79.12	69.75%	79.70	70.99%
12,000	48.12	81.04	68.41%	82.40	71.24%
13,000	49.63	82.96	67.16%	85.10	71.47%
14,000	51.14	84.88	65.98%	87.80	71.69%
15,000	52.65	86.80	64.86%	90.50	71.89%
16,000	54.16	88.72	63.81%	93.20	72.08%
17,000	55.67	90.64	62.82%	95.90	72.27%
18,000	57.18	92.56	61.87%	98.60	72.44%
26,000	69.26	107.92	55.82%	120.20	73.55%
19,000	58.69	94.48	60.98%	101.30	72.60%
20,000	60.20	96.40	60.13%	104.00	72.76%
25,000	67.75	106.00	56.46%	117.50	73.43%
30,000	75.30	115.60	53.52%	131.00	73.97%
35,000	82.85	125.20	51.12%	144.50	74.41%
40,000	90.40	134.80	49.12%	158.00	74.78%
45,000	97.95	144.40	47.42%	171.50	75.09%
50,000	105.50	154.00	45.97%	185.00	75.36%
75,000	143.25	202.00	41.01%	252.50	76.27%
100,000	181.00	250.00	38.12%	320.00	76.80%
903,000	1,393.53	1,791.76	28.58%	2,488.10	78.55%